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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2016/ 2017

**BFN2054 – PORTFOLIO MANAGEMENT**  
(All Sections / Groups)

10 MARCH 2017  
9:00 AM – 11:00AM  
(2 Hours)

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### INSTRUCTIONS TO STUDENT

1. This Question paper consists of 4 pages with 5 questions.
2. Answer ALL questions and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

Please Answer All the Questions

**Question 1 (20 marks)**

Suhi recently received a substantial sum of money from her business and has been thinking of reinvesting the money in Bursa Malaysia. She has been busy collecting information on the following stocks: Stock Gam and Stock Del. The information on the probabilities of returns of the stocks that she has collected so far is as follows:

Probability	Stock Gam (%)	Stock Del (%)
0.10	(12)	(18)
0.20	1	6
0.40	8	15
0.20	15	25
0.10	25	30

(a) For each of the stocks above, calculate the following:

- (i) The expected return, (5 marks)
- (ii) The standard deviation, and (8 marks)
- (iii) The coefficient of variation. (4 marks)

(b) Based on the information available in (a), evaluate the stocks and state which stock is riskier. (3 marks)

**Continued...**

**Question 2 (20 marks)**

The following financial information is available for Mah Bhd, a company which has recently been the target of acquisition by several other companies in the same industry as Mah Bhd is in. As a research analyst, you are given the responsibility to find the market value of Mah Bhd for the purpose of determining the appropriate acquisition price.

Number of ordinary shares	10 million
Current share price	RM5.85
Earnings per share	RM0.60
Proposed payout ratio	70%
Dividend per share one year ago	RM0.41
Dividend per share two years ago	RM0.40
Equity beta	1.5

Other relevant financial information:

Risk-free rate of return	4.0%
Return on the market	8.0%
Average construction sector price/earnings ratio	11

Calculate the possible share price (value) of Mah Bhd using the following methods.

- (i) Dividend growth model. (9 marks)
- (ii) Price/earnings ratio method. (3 marks)

**Continued...**

(b) Fre Investment Bhd is considering the investment in the bonds of Tatak Bhd, a blue chip company which is listed on the stock exchange. Each unit of bond has a par value of RM100 and a coupon interest rate of 10%. The bonds will mature in five years. Fre Investment Bhd's required rate of return from the bond investment is 12%.

Calculate the bond prices of Tatak Bhd if:

- (i) the coupon interest is payable on an annual basis. (4 marks)
- (ii) the coupon interest is payable on a semi-annual basis. (4 marks)

### **Question 3 (20 marks)**

- (a) An investment portfolio's total risk can be divided into systematic and unsystematic risk. Explain the differences between the TWO (2) types of risks. (10 marks)
- (b) Investors regularly use the price/earnings ratio (P/E ratio) as a measure of a stock's relative value. Explain the P/E ratio to a new investor who has very little finance knowledge. (10 marks)

### **Question 4 (20 marks)**

- (a) Although firms with surplus cash need to invest the cash to earn returns, they also need to keep a certain amount readily available. Briefly explain two motives why firms need to hold cash. (10 marks)
- (b) A portfolio has a primary objective of capital appreciation and a secondary objective of growth of income. If you feel bearish about the stock market as a whole, is it appropriate for you to reduce your equity holding to zero? Why or why not? (10 marks)

**Continued...**

**Question 5 (20 marks)**

The following data are available relating to the performance of An Mutual Fund:

	An Mutual Fund
Average Return	19%
Standard Deviation of Returns	35%
Beta	1.5
Standard Deviation	3.0%

The risk-free return during the sample period was 6%

- a) What is the Sharpe measure of performance evaluation for An Mutual Fund?  
(5 marks)
- b) What is the Treynor measure of performance evaluation for An Mutual Fund?  
(5 marks)
- c) Calculate the Jensen measure of performance evaluation for An Mutual Fund.  
(5 marks)
- d) Calculate the information ratio for An Mutual Fund.  
(5 marks)

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